Client Note

February 2, 2022

January continued our 'one month up/one month down' series we have been seeing since August of last year. The trend in the SP500 is positive, as the declines have been milder than the ascents. While January ended down 4.6%, it had been down more than 10% barely a week ago—levels equal to July 2022! Equity markets are nearing a breakout level, but there remains a chance that could undercut January's low. My expectation is that we do see a mild dip in February and then head north into Spring 2022. **Emerging markets were flat** for January, but had continued their decline since February 2021, **falling to November 2020 levels**. Emerging markets **had fallen** more than 20% since peaking one year ago. Stock markets of other developed economies ***fell less than US markets*** in January. I continue to forecast that ex-US markets will outperform, and emerging markets may excel strongly in 2022.

We are in the midst of earnings season currently and **profits on the SP500 are going to come in +23% year over year**. This reflects the general rebound in the economy and pricing power of companies that can supply the goods (and services) that are stymied with continued supply chain issues. Supply chain issues are on the mend, but one must really look for this news. We all know that the media likes bad news, so finding the good news always takes some effort. The first clue is when the 'bad topic' disappears from the front pages. Currently, anyone that wants or needs to work in the US can find a job paying more than it did a year or even two years ago. Inflation readings are higher than most can remember. I can remember as a teenager in the 1980's, that if one wanted a job, you just went and asked. As a father of teenagers, I hear them talk about where everyone is working and moving from job to job, similar to when I was in high school. I also remember earning 5% on a savings account, alongside a booming stock market (and Friday's with Louis Rukeyser). Higher rates and a wage growth can coexist alongside an expanding stock market. As supply chains mend, and Covid continues its nascent retreat, **we should see inflationary pressure decline**, which may give bulls a reason to buy more aggressively. **Higher earnings and lower inflation pressures are often scenario investors like to see.**

Recent release for the 4th quarter of 2021 GDP came in higher than expected. A large portion of this was due to inventory build. This is marked as a positive for GDP but will detract from the 1st quarter GDP numbers. Looking at monthly data, October/November were solid growth months and December slowed. This leaves the question of will we pick up the pace in February/March as omicron decreases, or has growth topped out already. In the coming months, China's renewed credit impulse and US short term vs long term interest rates (yield curve inversion) will be topics I am watching.

Market sentiment (AAII) is the lowest in 3 years. Sentiment often drops after the markets decline and bottoms near the first 'higher low.' I expect to see this scenario very soon. While the pieces are in place for the market to climb a 'wall of worry,' there is a fair chance we revisit or even undercut the January 21 lows prior to a new extended climb. Essentially, we are in a choppy price range, and the risk is overcommitting to one idea and the market going the opposite way.

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